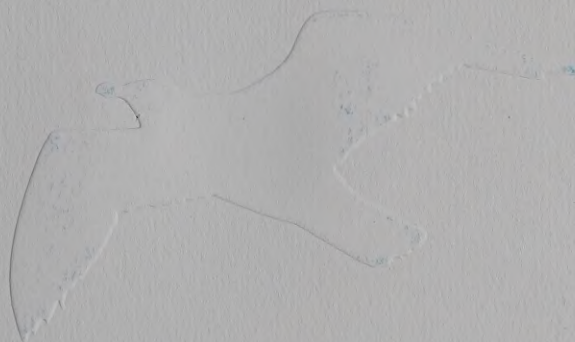


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UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE

FRANCIS G. WINSPEAR COLLECTION

RECEIVED MAY 12 1981



SEAGULL
RESOURCES
LIMITED

ANNUAL REPORT 1980

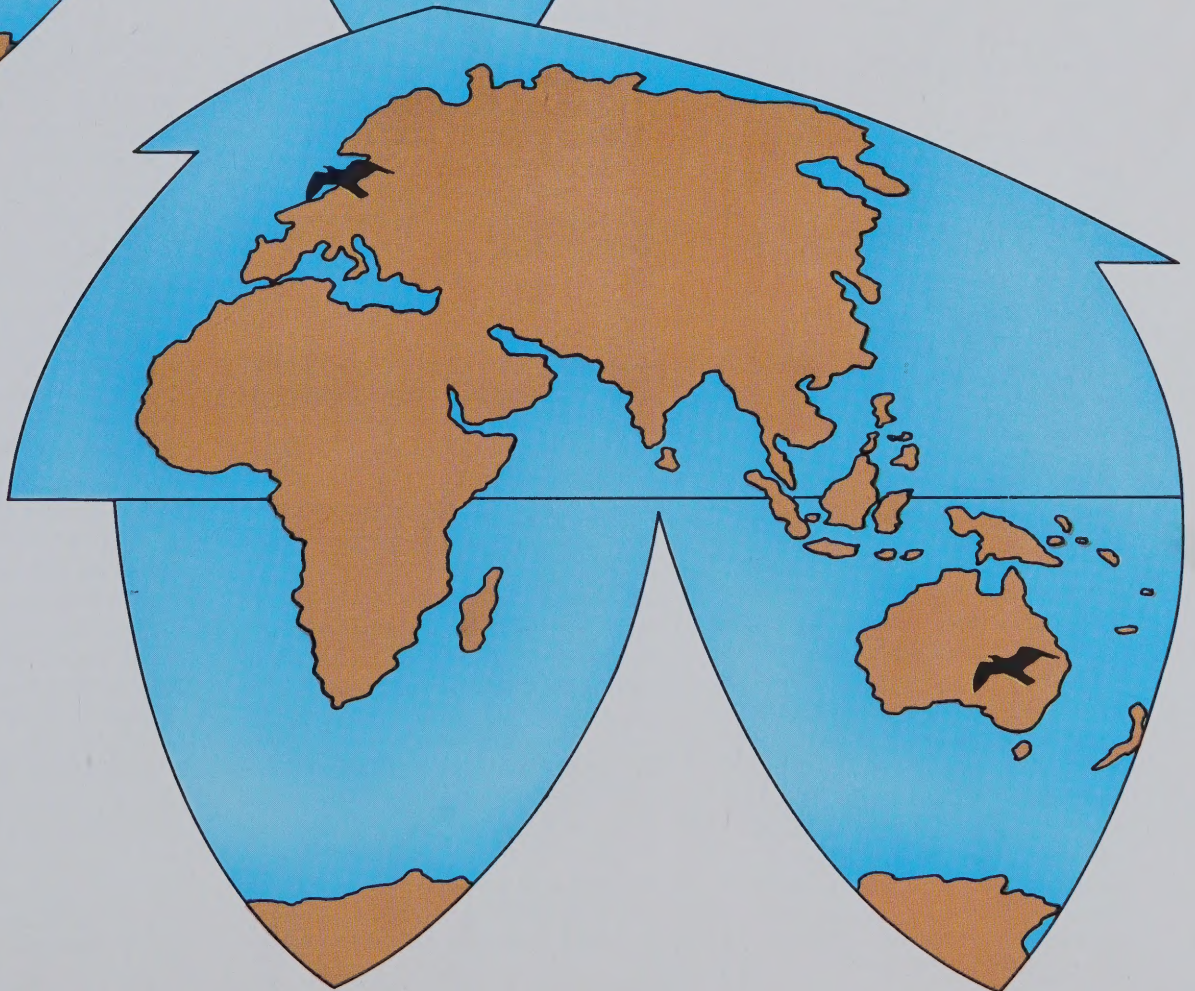


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Seagull interests



Report to Shareholders

The past year has been one of significant change for Seagull, particularly as a result of various projects coming to fruition through the efforts of a strong management team. The National Energy Policy in Canada introduced in October, has also necessitated a redirection of resources. We are fortunate to have had the foresight to establish operations in Houston, Texas some 3 years ago and as a result of relationships established with operators in the U.S., and good acreage positions, we have a definite advantage over other Canadian independents who are only now moving their activities to the U.S.

Our drilling budget last year was spent 1/3 in Canada, 2/3 in the U.S. and until amendments are made to the NEP program, we expect to direct our full 1981 oil and gas drilling budget to U.S. operations. We find it difficult to believe that given the impact of the NEP program, real changes will not be made in Canada and when this happens, with the merger of Seatu Exploration Ltd., we have an excellent Canadian land position with which to recommence activities.

Our U.S. oil and gas operations are beginning to have a major impact on the Company's asset base and as outlined further in the body of this report, revenue projections indicate important increases commencing in the calendar year of 1981. Our drilling program was curtailed as a result of financial restructuring and drilling was undertaken primarily in the period May to October. In this period we drilled 20 wells in the U.S. last year, completing 11 gas



wells and 3 as oil wells. The most significant completion was our highly successful Seaborne Creek, Fort Bend County, Texas well – working interest 37.5% which is currently producing at the rate of 1.5 mmcf/d. We have committed to a number of exciting plays in the U.S. covering Oklahoma, Texas, Arkansas, Louisiana, Utah, Montana, Kansas and California. As well we continue to pursue acreage acquisitions and are in the final stages of negotiating a lease for 1400 acres on land offsetting the Seaborne Creek well. In October, 1980 we contracted the consulting services of Dr. Ian Rumsey, formerly with Chevron, to pursue the geological merits of a 12 township play in the U.S.A. Initial work to date indicates the potential for shallow oil and gas and we are reviewing the merits of acquiring the necessary acreage. We also have development programs underway in Haskell County, Oklahoma, and Grimes County, Texas, which should provide increases in cash flow as offset wells are drilled and placed on production.

In Canada, we drilled 10 wells of which 3 were completed as oil wells and 3 as gas wells. The oil wells are on production. We were also successful in achieving an increase in the contract rate for the Wilder Pool in British Columbia from 1.6 mmcf/d

to 4.7 mmcf/d – working interest 19.99%. Subsequent to the year end, we negotiated a contract with Sherritt Gordon and placed our shut-in Hercules gas well on stream at a rate of 1 mmcf/d – working interest 25%.

Australia is one of the more exciting programs that the company has which will reach the drilling stage in 1981. We, together with our partners, have farmed our interest in 23 million acres to Esso Exploration and Production Australia, Inc., who are conducting a 2 stage exploration program involving both seismic and drilling. Esso have completed in excess of 1800 km (1400 miles) of seismic on the property to date and intend to spud the first well in late 1981. It is expected the first well will be a basement test between 7,000 - 8,000' with the primary objective being oil from the Jurassic Permian basin. We are at time of writing, exploring the potential of establishing permanent operations in Australia to capitalize on the relatively untapped potential of the country together with its present comparative political stability.

One of the turning points in Seagull's development has been the establishment of a mining division and the commitment to proceed with drilling programs on Seagull's 100% owned Sturgeon Lake base metal prospect in Ontario and



Hugh C. Findahl:

Executive Vice-President,
Seagull Resources Limited
President, Seagull Resources, Inc.

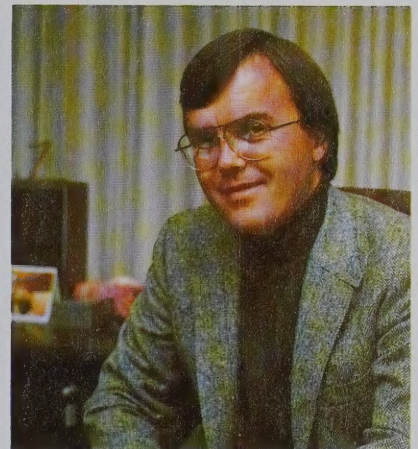
In twenty years with a Canadian chartered bank, Mr. Findahl's experience included management positions related to the major banking functions: finance and lending, operations and administration, marketing and corporate planning. He joined Seagull in January, 1980.



Ronald J. Farano:

Vice President,
Seagull Resources Limited

Mr. Farano has been a Vice-President and a Director of the Company since its formation. He is a noted authority and author on tax law, Director of The Canadian Federation of Independent Business and Chairman of the Board of the Italian Chamber of Commerce, Toronto. Mr. Farano is a member of the law firm of Farano, Green & Brans, Toronto.



Roman P. Derkach:

Secretary-treasurer,
Seagull Resources Limited
Vice-President Finance,
Seagull Resources, Inc.

Following eleven years with a national Canadian firm of chartered accountants, Mr. Derkach has held the position of secretary-treasurer in various public independent oil and gas companies. He joined Seagull's predecessor company in 1975.

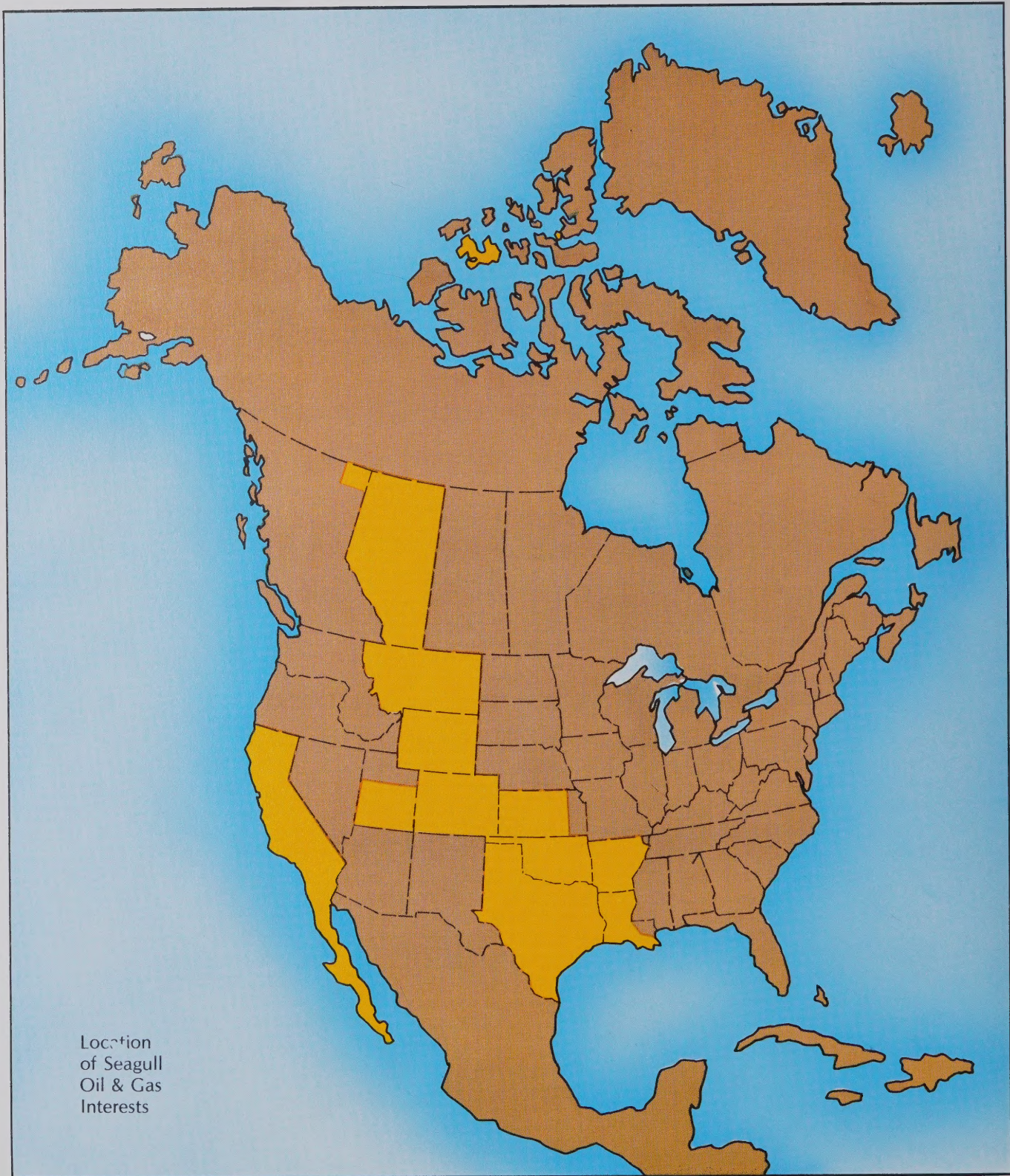
Buffalo Hills coal property in Alberta. The financing of these mining programs was arranged through placement of \$1,000,000 convertible debenture and based on results to date, the money is being well spent. The drilling on the coal property has identified a major seam 11 miles long with an estimated width of 5 miles in a basin type structure. Seam thicknesses average approximately 4.5 meters and preliminary indications are that the initial estimated 700 million tons of recoverable thermal coal should be confirmed or possibly enhanced. Interest has been expressed by both major companies and foreign markets to joint-venture the property and preliminary negotiations are underway. Preliminary research to date indicates the potential for coal liquifaction and discussions are

underway to determine the economic feasibility of such a program. The diamond-drill program at Sturgeon Lake has to date in our view, enhanced the potential for discovering an ore body. Significant anomalies have been established through IP surveys and drilling is underway at time of publication. Additionally, we intend to examine the Dark Water gold prospect near the southwest end of Sturgeon Lake, which is contained within our Land holdings. During 1935 to 1937 work was conducted by Dark Water Mining Ltd., encountering gold values in vein structures ranging from traces to 2 ounces of gold per ton.

We are excited about the future and believe that any one of the major programs we have underway

has the potential to cause a material increase in asset value overnight. Our shareholder base has been expanded with the merger of Seatu Exploration Ltd. and the listing of our stock on NASDAQ. We have a strong management team and the company is financially sound with a good working capital position for the first time in our history. We intend to replace debt with equity at an appropriate time and look forward to 1981 with a high level of optimism.

James M. Brady
Chairman of the Board and President
April 2, 1981





United States Highlights

OKLAHOMA HUGHES COUNTY

Seagull has an average working interest of 20% in 4 producing and 3 shut-in gas wells. Revenue from this area increased 61% in 1980 and the company anticipates a further substantial increase during 1981 to a net operating revenue of \$226 thousand due to the installation of compression facilities.

PITTSBURG COUNTY

With an average 20% working interest in 2 wells, Seagull expects a net operating revenue of more than \$600 thousand, with the addition of one well, by the end of 1981.

HASKELL COUNTY

During 1980 Seagull participated in the drilling of 3 gas wells, each of which has greater than 100 ft. of Middle Booch gas pay. Two of the wells have Open Flow Potentials in excess of 19 mmcf and are projected to come on stream in 1981 at an estimated 2 mmcf each. Seagull currently has enough acreage to support 3 additional wells and along with its partners are attempting to acquire 7000 additional acres. Seagull has a net working interest of 14.8% in the area which should yield net operating revenues of \$36 thousand in 1981 and more than \$200 thousand in 1982 for production from the acreage currently held.

TEXAS HIGHLIGHTS

N.E. IOLA PROSPECT GRIMES COUNTY

The company participated in a test well which was completed in the Georgetown formation and is producing at 300 BOPD. From log analysis, it appears that in addition to this producing formation the well also has two pay zones behind pipe, namely the Buda and the Austin Chalk. It is anticipated that three additional wells will be drilled on the prospect in the 1981 fiscal period. Working interest in existing well: 5.555% (320 acres); Working interest in locations around producing well: 8.333% (320 acres); Working interest in remaining lands in the prospect: 16.667% (150 acres).

SEABOURNE CREEK PROSPECT FORT BEND COUNTY

The company participated in drilling and the dual completion of a gas well. The well is currently producing at a rate of 1.5 mmcf per day. We are attempting to acquire additional lands in the area. Should we be successful, we plan on drilling two or three wells on the prospect in the 1981 fiscal year. Working interest: 37.5%.

ERATH COUNTY

Seagull has a 25% working interest in 14,803 acres. Two successful shallow gas wells were drilled in 1978 and the company is currently evaluating offset production to determine the area's development potential.

PICKTON/SMACKOVER HOPKINS COUNTY

The company has working interests which range from 26.667% to 40% before payout and 26.667% after payout in approximately 2800 acres. The J.M. Dodson and Randolph wells should deliver 5 mmcf and

550 bbl/d of condensate and natural gas liquids once on stream.

The company and partners recently purchased the Rosie Miller well, located on a producing unit adjoining the west boundary of the J.M. Dodson producing unit.

The company anticipates execution of the gas contract and processing agreement (prior to the end of April of 1981), followed immediately thereafter with construction of the pipeline and facilities.

MIKESKA PROSPECT LIVE OAK COUNTY

The company has successfully negotiated a farmout covering 337 acres of the company's 71,864 gross acres in this prospect. Following the drilling and payout of the test well the company will have a 25% working interest in the shallow rights (down to 10,870') and a 17.5% working interest in the deep rights (below 10,870'). The estimated depth of the test well is 14,750'. The earning well is to commence in June, 1981.

N.W. BLUE LAKE PROSPECT BRAZORIA COUNTY

The company paid 12.5% of costs of drilling an 11,800' well on this prospect for a 22.25% working interest in the well and lands (808 acres). The well appears to have one oil and two gas zones.

SAN FELIPE DOME WALLER COUNTY

The company sold all but 6.25% of its interest in the prospect and participated in the drilling of a well which was abandoned.

**ZAVALLA
BEE COUNTY**

The company farmed out its interest for a test well on the prospect. The well was drilled and abandoned at no cost to the company.

**SOUTH INDEPENDENCE PROSPECT
JIM WELLS AND DUVAL COUNTY**

The company has agreed to participate in the drilling of a 5,000' test well on this prospect in which there are eleven prospective horizons. The well is to spud early in 1981. 25% working interest.

**BARRON RANCH
TOM GREEN COUNTY**

The company is a participant in a 5200' Strawn Limestone well commenced in February, 1981. 7.812% working interest.

**ALBRECHT
GOLIAD COUNTY**

The company will participate in a 8600' Wilcox test to be drilled in mid 1981. 7.812% working interest.

**HUTTO
NUECES COUNTY**

The company will participate in a 6600' Frio Sand test which is to be drilled mid 1981. 6.25% working interest.

**MARY FIELD
VICTORIA COUNTY**

The company is negotiating a seismic venture with an operator in the area. If seismic is favorable, the drilling of a well is to follow. 8.75% working interest.

**SELKIRK ISLAND
MATAGORDA COUNTY**

The company will participate in a 6100' Miocene test to be commenced in mid 1981. 5.208% working interest.

**LOUISIANA
BAYOU LONG PROSPECT
ST. MARTIN PARISH**

The company participated in the drilling of a 14,090' test well. The well has been completed as a gas well and is awaiting facilities to have it on production in the first half of 1981. 3.125% working interest.

**BAYOU CARLIN
ST. MARY PARISH**

The company negotiated an agreement wherein it was carried (no cost) through the drilling of the 18,000' well drilled on the prospect and participated only in the completion attempts. The deep (16,000' +) completion attempts were unsuccessful. The well is suspended pending a decision on further operations. 0.5% working interest.

**DRISCOLL PROSPECT
JACKSON PARISH**

The company participated in the drilling of an 8500' test well which was abandoned. 6.25% working interest.

**UTAH
BURR DESERT
WAYNE COUNTY**

The company will participate in two wells on a 23,000 acre U.S. Federal Unit. 12.5% working interest.

**MONTANA
COTTONWOOD CREEK
ROSEBUD AND GARFIELD COUNTY**

A well will be drilled at no cost to the company in mid 1981. 8.5% working interest.

**KANSAS
THREE SEVENS
MITCHELL COUNTY**

The company has an ongoing lease acquisition program. It currently has in excess of 12,000 acres under leases. 25% working interest.

**NEMAHA RIDGE
LYON, CHASE, GEARY AND
MORRIS COUNTIES**

The company has arranged to have 100 miles of seismic run on its acreage (in excess of 130,000 acres). If the seismic is successful, drilling is to take place in mid 1981. The cost of the program to the company will be a portion of its working interest. 12.5% working interest.

Reserves Summary

		Seagull Net at January 1, 1981	
		Imperial mbbl	Metric m ³
Oil			
Proven	- Alberta	266.0	42 294
	- Texas	424.1	67 432
	- Louisiana	1.0	159
		690.1	109 885
Probable	- Alberta	250.0	39 750
	- Texas	198.0	31 482
	- Arkansas	119.0	18 921
		567.0	90 153
TOTAL OIL		1,258.1	200 038
Natural Gas		bcf	10 ⁶ m ³
Proven	- Alberta	3.9	109.9
	- British Columbia	8.6	242.3
	- Oklahoma	5.2	146.5
	- Texas	6.3	177.5
	- Louisiana	0.2	5.6
		24.2	681.8
Probable	- Alberta	24.0	676.2
	- Texas	7.5	211.3
	- Louisiana	3.0	84.5
	- Arkansas	0.1	2.8
		34.6	974.8
TOTAL NATURAL GAS		58.8	1 656.6

The above reserve calculations are based on a combination of independent engineering reports and the company's internal engineering.

Well Status Report to December, 1980

	Oil	Gas	D & A	Total	Success Ratio
Total Company					
To 1978	10	14	10	34	71%
1978	3	21	17	41	59%
1979	4	28	19	51	63%
1980	5	16	9	30	70%
TOTAL	22	79	55	156	65%
Canada					
To 1978	8	12	6	26	77%
1978	2	11	8	21	62%
1979	4	24	9	37	76%
1980	3	3	4	10	60%
TOTAL	17	50	27	94	71%
United States					
To 1978	2	2	4	8	50%
1978	1	10	9	20	55%
1979	0	4	10	14	29%
1980	2	13	5	20	75%
TOTAL	5	29	28	62	55%

Land Holdings

		Developed Acreage		Undeveloped Acreage	
		Gross	Net	Gross	Net
United States					
Arkansas				400	25
California				5,000	100
Colorado				57,957	1,845
Kansas				160,661	25,056
Louisiana	200	13		3,012	161
Montana				1,640	197
Oklahoma	2,585	424		1,692	401
Texas	5,624	1,269		28,163	6,161
Utah				129,000	15,485
Wyoming				35,580	4,270
TOTAL	8,409	1,706		423,105	53,701
Canada					
Alberta	92,097	7,166		120,453	42,963
British Columbia	11,840	2,290		5,710	1,028
Saskatchewan	640	140		320	320
TOTAL	104,577	9,596		126,483	44,311
TOTAL CANADA AND U.S.					
	112,986	11,302		549,588	98,012

The above table excludes Arctic Lands in which Seagull has a royalty interest in 1,260,550 acres, and our Australian interests in 23,000,000 acres and German North Sea properties discussed in this report.

Daily Production Summary

		Seagull Net for 1981	
		Imperial bbl/d	Metric m ³ /d
Oil			
Canada	- Alberta	25.41	4.04
United States	- Texas	82.34	13.09
TOTAL OIL		107.75	17.13
Natural Gas			
Canada	- Alberta	0.430	12.115
	- British Columbia	1.116	31.442
		1.546	43.557
United States	- Oklahoma	0.620	17.468
	- Texas	0.790	22.257
	- Louisiana	0.033	0.930
		1.443	40.655
TOTAL NATURAL GAS		2.989	84.212

Canadian Highlights

Seagull has various interests in 19 Canadian producing properties, 15 of which are in Alberta, 3 are in British Columbia and 1 in Saskatchewan. On a calendar year basis, the company increased its net operating revenue 43% in 1980 over 1979 and anticipates a further increase in 1981 of more than 100%.

With the acquisition of Seatu Exploration Ltd., the company acquired 28,000 net acres. Some of the more interesting prospects are in the Edson and Erith areas which have considerable oil and gas potential. Seagull is currently negotiating farmouts on some of these lands.

ALBERTA COAL EXPLORATION PROJECT

BUFFALO HILL (SOUTHERN CENTRAL PLAINS)

The company filed for and received approval from the Energy Resources Conservation Board of Alberta to carry out in 1981 a greatly expanded exploration program on its 100% owned Buffalo Hill Coal property which covers approximately 43,000 acres. This follows its earlier investigations based on geological studies of the area including a number of core holes drilled on the holdings in 1979, which indicated a possible recoverable 700 million metric tons of high quality thermal coal.

The forthcoming program, scheduled to start early in the year, is to be divided into two phases. The first, involving an expenditure

ALBERTA HIGHLIGHTS

CROSSFIELD LONE PINE

Atco et al Crossfield 6-26-22-29, Seagull 6.25% working interest, on stream at 1.25 mmcf/d.

CREMONA

Seagull has a 9.375% working interest in 10,000 acres on which 3 oil wells were drilled and are producing about 40 bbl/d.

HERCULES

A gas purchase contract was successfully negotiated enabling the company to put its remaining shut-in gas on stream in early 1981. The company has an average working interest of 21.875% in the area.

FENN BIG VALLEY

A Seagull interest well was included in the Fenn Big Valley gas unit and is now receiving its share of the unit revenues (0.336% W.I.)

of \$500,000, will entail the drilling of 25 cored and boreholes ranging from 850 feet to a maximum depth of 1,500 feet. An additional 20 locations are to be drilled as fill-in holes following a review of Phase I. The drilling is expected to move tonnage figures from the reserve estimate into the proven reserve category.

Initial work has proved the coal to be contained in three seams within a coal bearing sequence with each seam ranging in thickness from over 1 meter to 5.5 meters or more. Analyses on coal quality indicate it to be a High Volatile Bituminous "C" product having a fixed carbon content of 50 - 55%; moisture of 10 - 14%, ash 6 - 15%, sulphur 0.3 to 0.5% and 10,500 to 11,800 BTU/lb.

At present, several internal and external avenues are being studied towards the marketing of this coal. On possible export markets, foreign

BRITISH COLUMBIA HIGHLIGHTS

WILDER

A revised gas purchase contract is now in place, and Seagull is receiving its 19% working interest share of revenues from two wells producing at a combined rate of 5 mmcf/d.

RIGEL

Another well was put on stream and is expected to produce at 1.2 mmcf/d, for a total of 2 mmcf/d with the 3rd shut-in. Working interests 32.3% and 22.7%.

BUICK CREEK

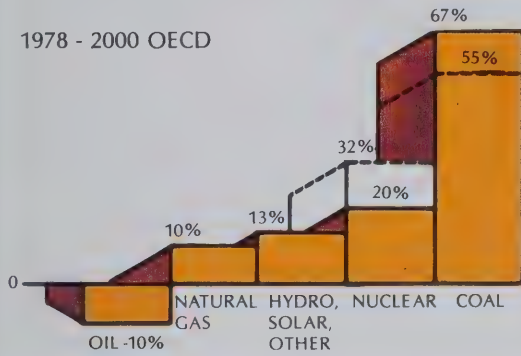
A Seagull interest well went on stream at 0.800 mmcf/d. (27.1% working interest).

groups representing Japanese, Scandinavian and Taiwanese interests have expressed a desire to purchase the coal. In aggregate, these represent a potential market of 6 million tons per year.



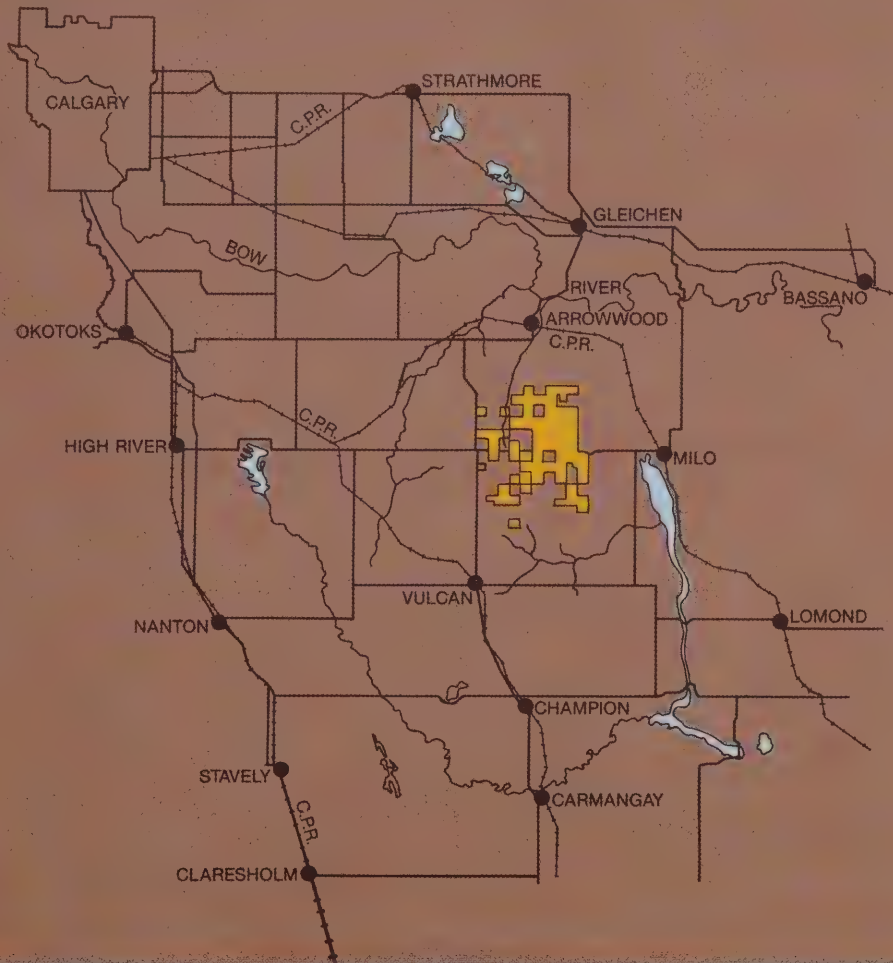
COAL'S SHARE OF FUTURE ENERGY INCREASE

1978 - 2000 OECD



**Seagull
Resources
Limited**

**Buffalo Hill
Coal Leases**
Province of Alberta



STURGEON LAKE, ONTARIO

Seagull Resources Limited has a 100% interest in 12,800 acres of mineral leases in the Sturgeon Lake Mining area of Southern Ontario.

The leases have been acquired over the last several years and all have a 21 year term.

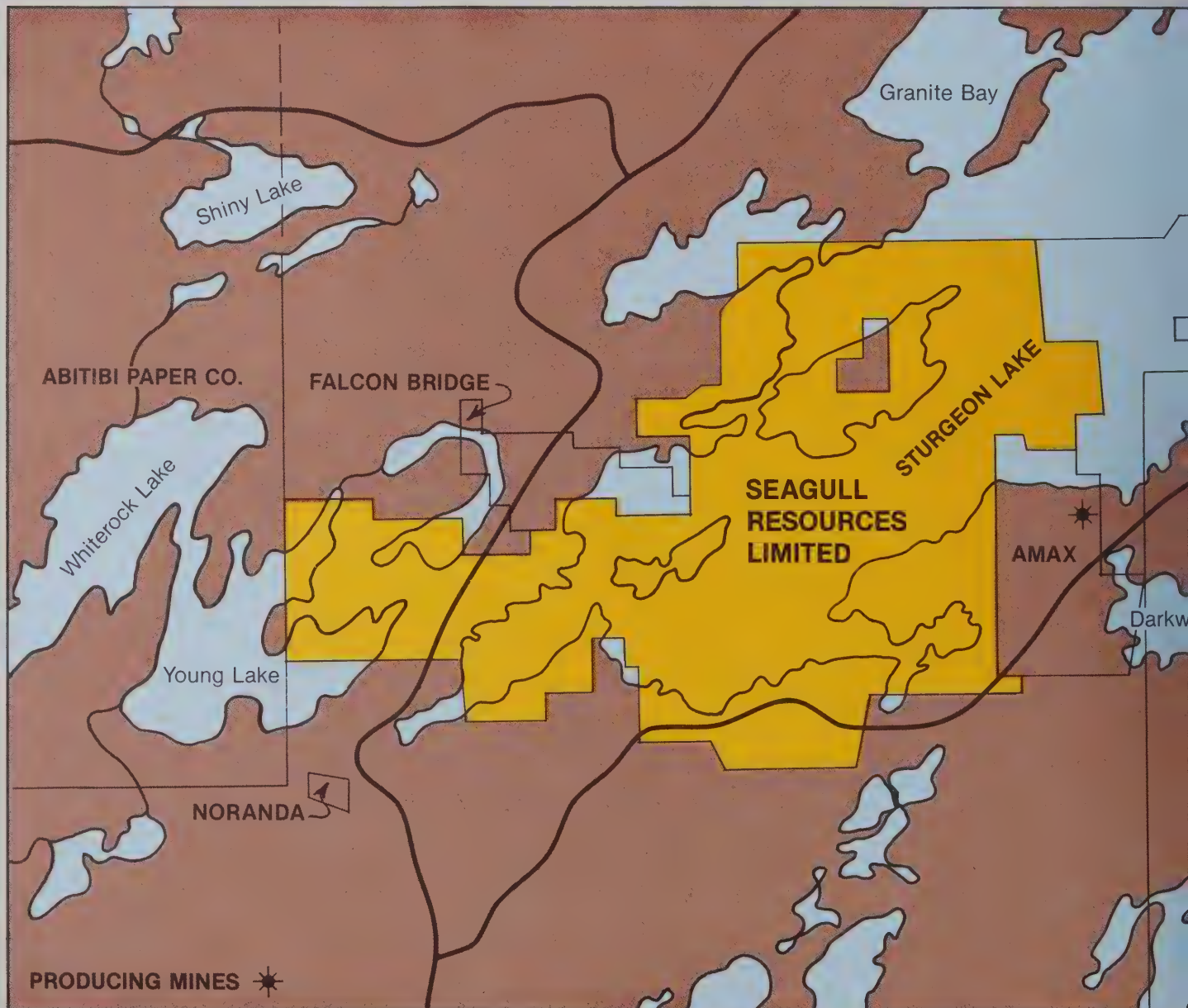
The following describes the basis of our mining program in this area.

Following the discovery of the Mattabi massive sulphide deposit in 1969, four additional deposits have been located. These bodies range in size from 1,000,000 tons at the F-zone to 13,000,000 tons at the Mattabi and are on strike with our drilling target.

Additional diamond drilling is being conducted by Mattagami Lake Mines and Abitibi-Price this winter.

The Mattabi and F-zone deposits are considered to be stratigraphically equivalent, the massive sulphide deposits occurring within a quart-porphyrific rhyolite pyroclastic unit.

This horizon appears to extend into the adjoining extensively overburdened Seagull property to the west for a possible length of three miles.

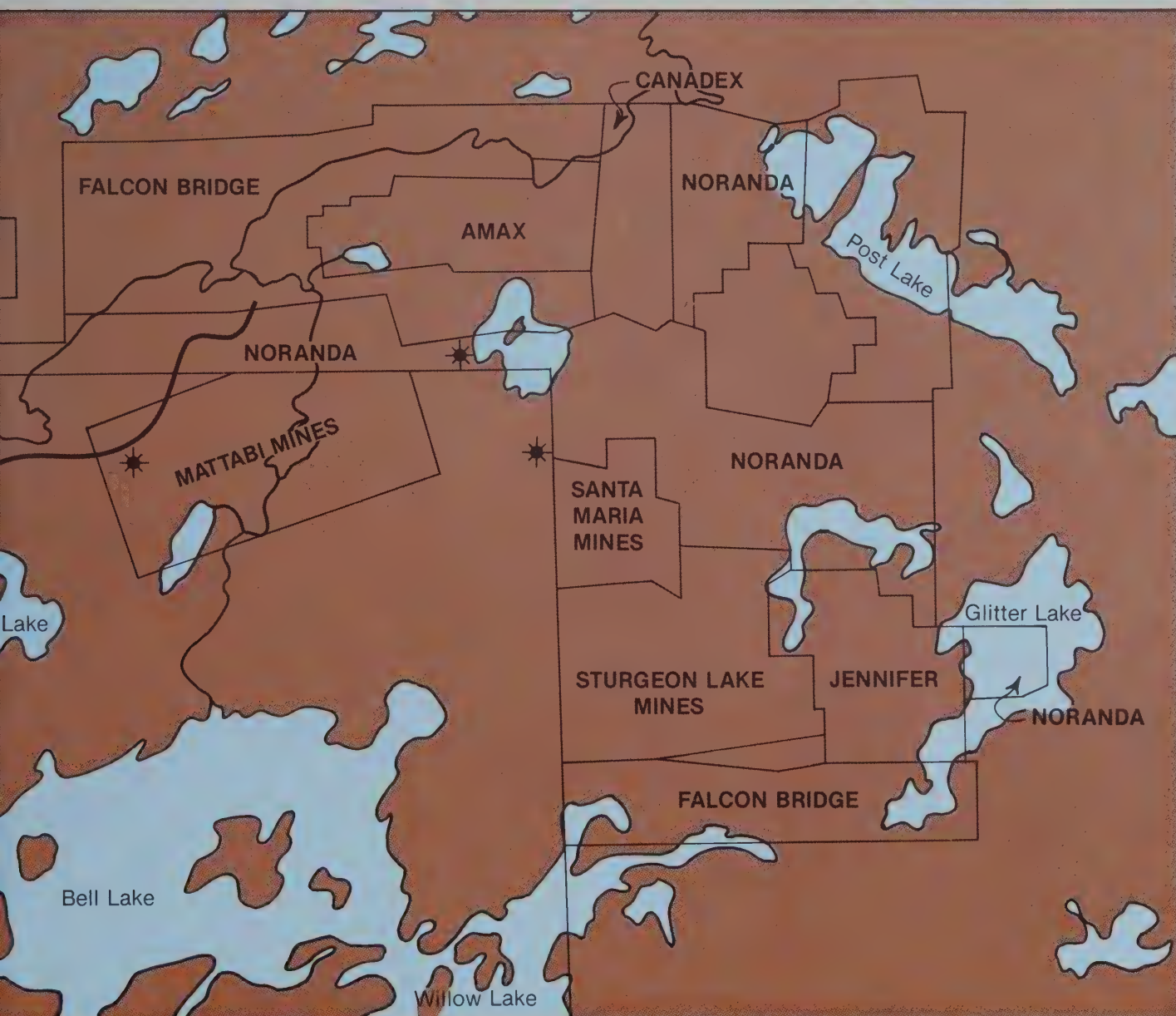


A study of past geophysics conducted over the Seagull property has been made and an interpretation of a recently completed airborne Input survey is expected shortly.

In view of the excellent potential, Seagull Resources Limited has initiated an ambitious two phase exploration program to consist of ground I.P. and geo-chemical surveys of Sturgeon Lake, and

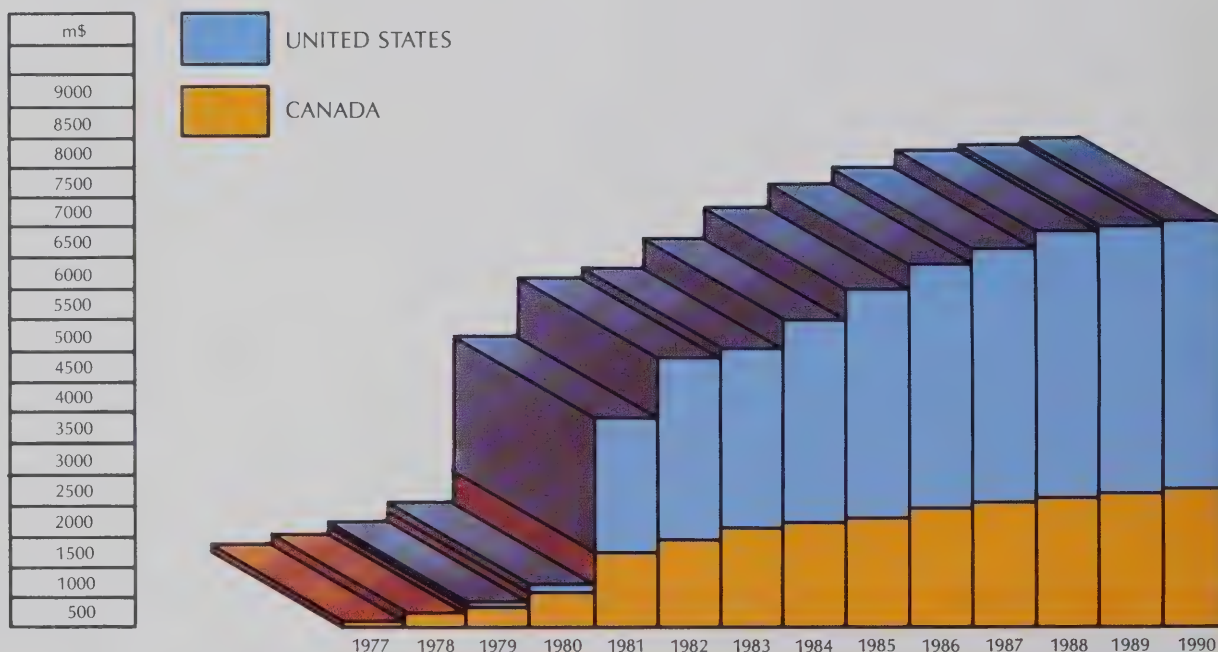
10,000 feet of diamond drilling along the favourable horizon west of the known F-zone.

The total program is estimated to cost approximately \$500,000.00. Additional funds will be budgeted if required.



SEAGULL RESOURCES LIMITED

Net Operating Income
Proven Reserves
January, 1981



Seagull Resources Limited 1980 Financial Highlights

Oil and gas production revenue doubled this year primarily from an increase in Canadian production and as will be noted in the chart above, calendar year projections indicate dramatic increases as U.S. properties commence production in 1981.

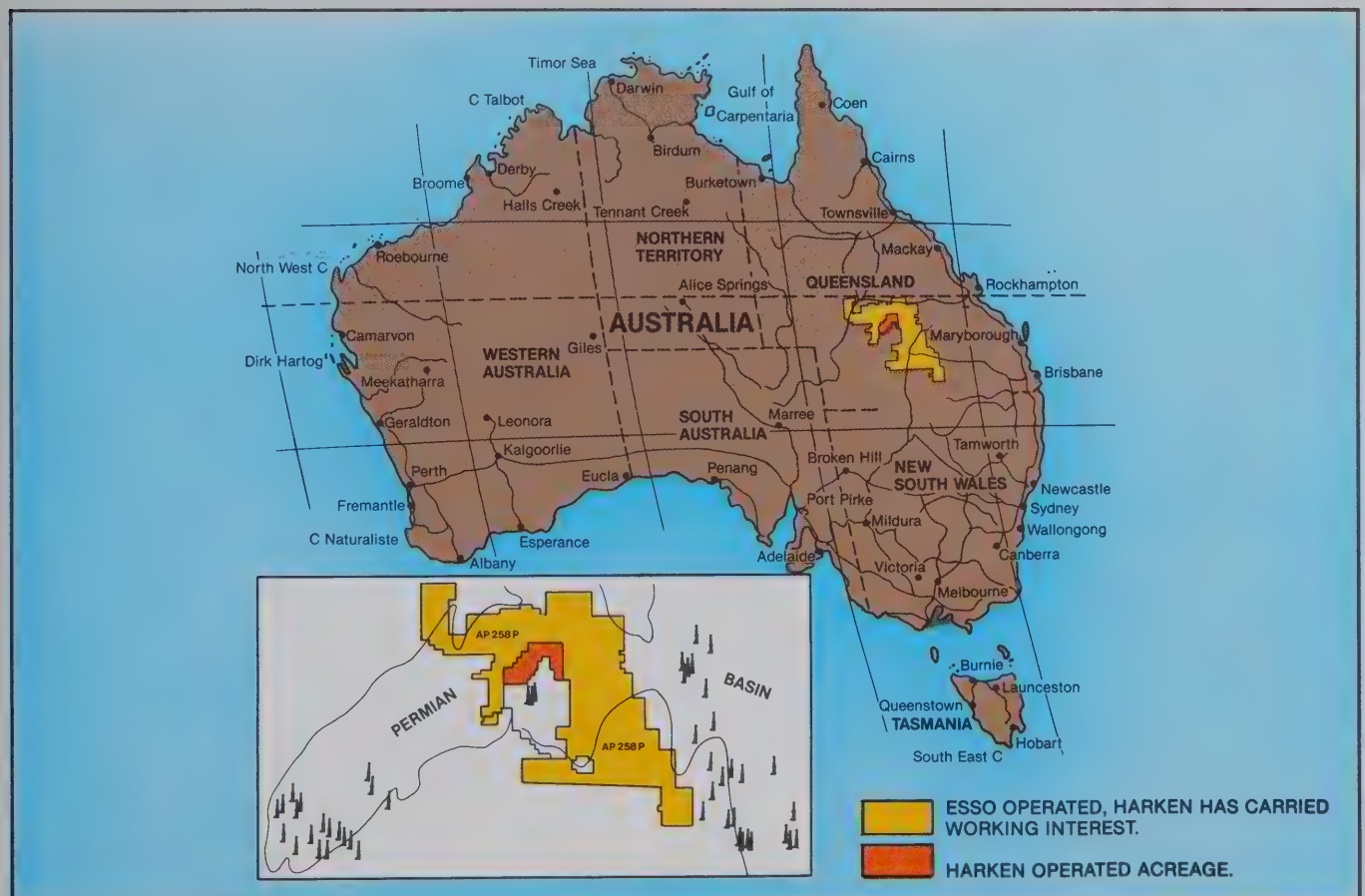
The sale of shut-in Canadian gas reserves prior to the Canadian federal government budget, together with an increase in our production bank line enabled the company to achieve a positive working capital position of \$500,000 for the first time in the company's history. Subsequent to the year end an additional \$4,000,000 was raised by a private placement of 9% one year convertible unsecured notes.

Debt servicing costs for 1980 were \$968,000, an increase by over \$500,000 from last year and this burden is reflected in an almost similar cash loss before non-cash charges. We expect expenditures to be at the same level in 1981 until our debt load is replaced by an equity issue, which is planned when market conditions are more propitious.

Seagull and others have farmed their interests in 22,832,000 acres to Esso Exploration and Production Australia, Inc. This farm out covers our interest in the Authority To Prospect 268-P and Authority To Prospect 265-P which consist respectively of 1172 blocks (approximately 22,400,000 acres) and 78.5 blocks (approximately 1,432,000 acres). On prospect #268-P Esso had a minimum commitment to shoot 1500 km of seismic and drill 3 exploratory wells under stage one with an equivalent commitment if they exercised their option to proceed with stage 2. Esso

have exceeded their obligation on this prospect under stage 1 and have shot in excess of 1800 km of seismic at date of publication. Provided Esso proceeds with stage 2 of the agreement Seagull's 10% interest will reduce to 3% in this permit. Esso have also agreed to shoot 500 km of seismic and drill 2 wells in phase one of the farm in obligation on ATP-265-P and a further 250 km and one additional well if they proceed with stage 2. This preliminary agreement is subject to approval of governmental authorities, which is in the process of being obtained. Should Esso proceed with phase 2, Seagull's interest will reduce from 10% to 4%. While there are a number of exploration targets the primary objective is oil from the Jurassic Permian basin.

During the course of petroleum seismic drilling, coal was discovered and an application has been filed by Esso on behalf of the partners for an exploratory permit covering a major portion of 268-P. Seagull has indicated their intention to participate in this venture.

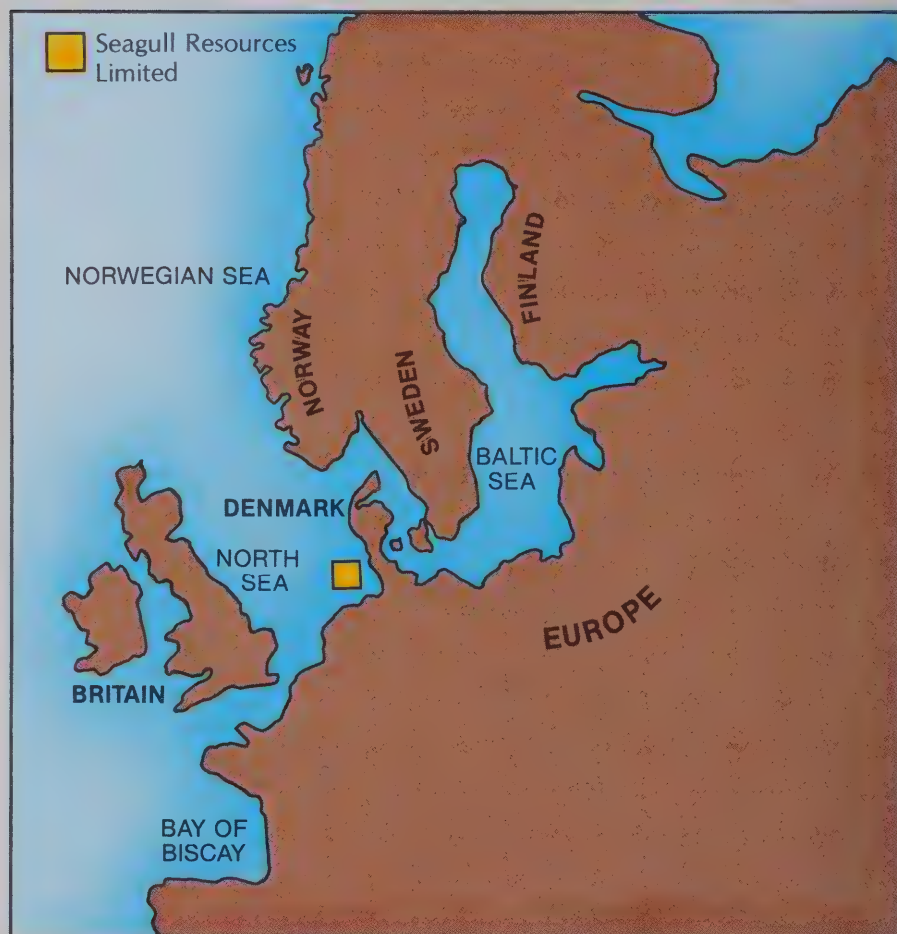


140,200 gross acres
9700 net acres
200 royalty acres

Seagull and its partners have successfully obtained a three year extension on its Block J2 German Shelf Area of the North Sea (Seagull 10% W.I.) The work program for the first year will consist of an intensive study of deep seismic reflection data as well as a continuation of an ongoing geochemical study.

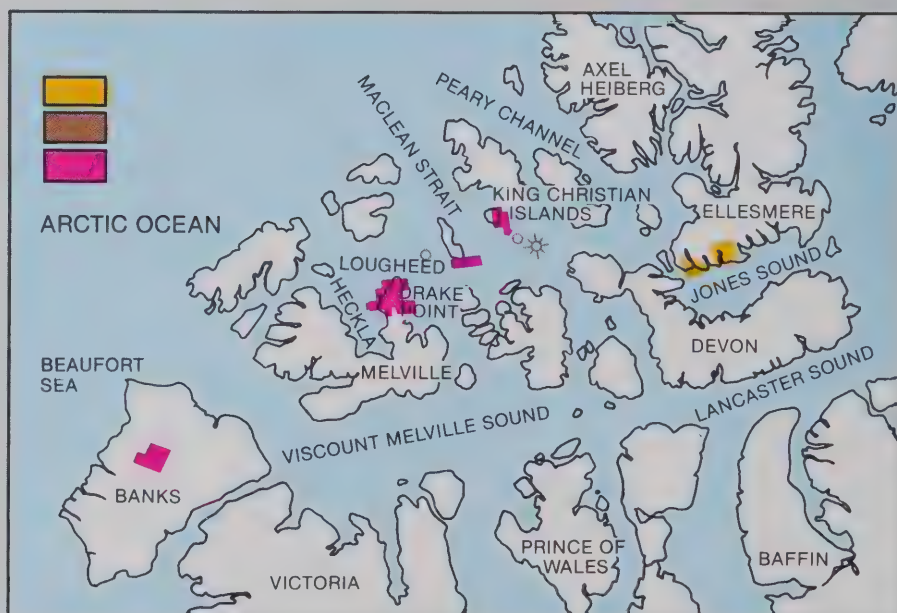
Upon incorporation of information from the aforementioned studies and information from a currently drilling well on a general area Block, our group will decide on our next course of action for our interests.

On our Jade Plate Permit (Seagull .432% overriding royalty) the operators are continuing their seismic evaluation program in an effort to procure additional drilling prospects.



Seagull has a one tenth of one percent gross overriding royalty in approximately 828,000 acres on Melville, Lougheed and King Christian Islands in the Arctic. These areas are of particular interest as portions of our interest underly the Drake Point, Heckla and King Christian fields.

In addition to the above acreage, Seagull has varying no cost interests in approximately 612,000 acres in Banks and Ellesmere Islands.





AUDITORS' REPORT

To the Shareholders of
Seagull Resources Limited

We have examined the consolidated balance sheet of Seagull Resources Limited as at October 31, 1980. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this consolidated balance sheet presents fairly the financial position of the company as at October 31, 1980 in accordance with generally accepted accounting principles.

A handwritten signature in cursive script, appearing to read "Horne & Radcliffe", written in dark ink.

Chartered Accountants

CALGARY, Canada
January 14, 1981

CONSOLIDATED BALANCE SHEET / ASSETS

AS AT OCTOBER 31, 1980

CURRENT ASSETS

Cash	\$ 514,072
Accounts receivable	
Trade	1,751,242
Sale of resource properties (note 3)	150,000
Officers and directors	16,721
Prepaid expenses	9,149
	<u>2,441,184</u>

PROMISSORY NOTE RECEIVABLE (note 3) 330,000

RECEIVABLE UNDER SHARE PURCHASE PLAN
(note 6(c)) 165,000

INVESTMENTS IN OTHER COMPANIES, at cost
(quoted market value \$626,218) 261,102

PROPERTY AND EQUIPMENT, at cost (note 4)	\$14,454,280	
Accumulated depletion and depreciation	<u>745,814</u>	13,708,466

OTHER ASSETS		<u>16,879</u>
		<u>\$16,922,631</u>

Approved by the Board



Director



Director



CONSOLIDATED BALANCE SHEET / LIABILITIES

AS AT OCTOBER 31, 1980

CURRENT LIABILITIES

Bank indebtedness (note 5)	\$ 197,384
Accounts payable and accrued liabilities	1,746,110
Current maturities on long-term debt	<u>9,100</u>
	1,952,594
LONG-TERM DEBT (note 5)	7,081,434

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)

Authorized

1,000,000 Preferred shares with \$10
par value, issuable in series
15,000,000 Common shares without par
value

Issued

280,000 9% cumulative redeemable
convertible preferred shares,
Series A

3,974,277 Common shares

\$ 2,800,000
<u>8,749,132</u>
11,549,132

DEFICIT	<u>(3,660,529)</u>	7,888,603
		<u><u>\$16,922,631</u></u>

Notes to Consolidated Financial Statements

AS AT OCTOBER 31, 1980

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Acquisitions of subsidiaries are accounted for by the purchase method and, accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings. The excess of the consideration paid for shares of subsidiary companies over the net book value of the assets acquired has been included in property and equipment in the consolidated balance sheet and is being amortized on the same basis as such assets.

(b) Property and Equipment

(i) Petroleum and Natural Gas Operations

The Company capitalizes the acquisition costs of both producing and non-producing properties by project area of interest until it is determined whether or not economic reserves exist. If no economic reserves exist for an area of interest, all costs related to that area are charged to earnings. If economic reserves exist, all costs related to that area are amortized using the unit-of-production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated balance sheet reflects only the Company's proportionate interest in such activities.

Equipment is depreciated on a straight-line basis over its estimated useful life at an annual rate of 10 percent.

(ii) Mineral Properties

All costs of mineral properties including exploration and development expenditures related to such properties are capitalized by area of interest as long as the properties are considered to be of value. The costs of such properties are written off against earnings if abandoned or will be amortized on a unit-of-production basis on commencement of commercial production.

Development of mineral properties and recovery of related costs are dependent upon capital financing arrangements, mineral market conditions, environmental considerations and general economic conditions.

(c) Foreign Currencies

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis:

- (i) current assets and liabilities at the rate of exchange at balance sheet date;
- (ii) all other assets, applicable depreciation and depletion, and non-current liabilities at rates prevailing when the assets were acquired or the liabilities incurred;
- (iii) revenue and expenses, except depreciation and depletion, at the average rate in effect during the period.

Gains or losses resulting from such translation practices are charged to earnings.



2. BUSINESS COMBINATION

On October 31, 1980 Seagull Resources Ltd. ("Resources") and Seatu Exploration Ltd. ("Exploration") were amalgamated under provisions of the Companies Act (Alberta) to form Seagull Resources Limited ("Seagull"). The business combination has been accounted for as an acquisition by Resources of all of the 3,097,511 issued and outstanding common shares of Exploration in consideration for \$2,201,000 comprised of 619,503 common shares of Seagull at an ascribed value of \$3.55 per share.

The net assets of exploration acquired and values assigned thereto are as follows:

Petroleum and natural gas property and equipment at net book value	\$1,231,090
Increase to fair value	<u>766,287</u>
	1,997,377
Working capital	<u>203,623</u>
Ascribed consideration	<u><u>\$2,201,000</u></u>

The assets of Resources have not been revalued.

3. PROMISSORY NOTE RECEIVABLE

During 1980 the Company sold property and equipment for \$480,000 of which \$150,000 was paid subsequent to October 31, 1980 and the balance of \$330,000 is payable from 50% of the net revenues from the property until September 30, 1985 when any unpaid amount is due.

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net
Producing petroleum and natural gas rights including development thereon	\$ 4,147,284	\$532,052	\$ 3,615,232
Production equipment	<u>1,264,618</u>	<u>180,936</u>	<u>1,083,682</u>
	5,411,902	712,988	4,698,914
Non-producing petroleum and natural gas rights including development thereon	8,092,885	—	8,092,885
Non-producing mineral properties	<u>779,427</u>	<u>—</u>	<u>779,427</u>
Other property and equipment	<u>170,066</u>	<u>32,826</u>	<u>137,240</u>
	<u><u>\$14,454,280</u></u>	<u><u>\$745,814</u></u>	<u><u>\$13,708,466</u></u>

5. LONG-TERM DEBT

Production bank loans	\$7,049,356
Promissory note due December 1, 1984	<u>41,178</u>
	7,090,534
Less maturities included in current liabilities	<u>9,100</u>
	<u><u>\$7,081,434</u></u>

The bank indebtedness included in current liabilities and production bank loans are secured by demand promissory notes and are secured by specific petroleum and natural gas properties and accounts receivable. Interest is payable at a bank prime rate plus 1.5%.

The production bank loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of working capital; therefore, no portion of such loans has been reclassified to current liabilities.

On November 3, 1980, the Company received \$4,000,000 by issue of 9% Series One Convertible Promissory Notes due November 2, 1981. The notes are convertible prior to maturity to common shares of the Company for \$5.00 per share. The notes were issued to a company managed and owned by an officer and director of the Company and his relatives. The proceeds were used to reduce production bank loans.

After giving effect to the repayment of production bank loans referred to above, the estimated principal payments on long-term debt for the next five years are as follows: 1981 - \$515,600; 1982 - \$768,900; 1983 - \$768,900; 1984 - \$768,900; 1985 - \$759,800.

6. CAPITAL STOCK

(a) Preferred Shares, Series A

The Series A shares are redeemable commencing June 15, 1984 at \$10.50 each. The redemption price reduces annually to \$10.00 each at June 15, 1989 and subsequent. The Series A shares are also convertible to common shares at \$6.50 per common share until June 15, 1982, at \$8.50 per common share from June 15, 1982 to June 15, 1985 and \$10.50 per common share from June 16, 1985 to June 15, 1989. If prior to June 15, 1984 the weighted average price at which the common shares were traded for 20 trading days exceeds 150% of the conversion price noted above, the Series A shares may be redeemed by the Company.

(b) Common Shares

Common shares issued pursuant to the business combination described in note 2 are as follows:

	Number of Shares	Carrying Value
Issued for common shares of		
Resources	3,354,774	\$6,548,132
Exploration	619,503	2,201,000
	<u>3,974,277</u>	<u>\$8,749,132</u>

Subsequent to October 31, 1980, 65,000 common shares were issued to acquire additional mineral properties.

At October 31, 1980, 230,000 common shares were reserved for issuance at prices ranging from \$2.46 to \$3.06 pursuant to stock options expiring from time to time until May 12, 1983 and granted to officers, directors and employees. Common shares have also been reserved for issuance pursuant to the conversion privileges of the Series A preference shares. Subsequent to October 31, 1980, an additional 800,000 common shares were reserved for issuance pursuant to the conversion privileges of the \$4,000,000 Series One Convertible Promissory Notes (see note 5).

(c) Receivable Under Share Purchase Plan

Under terms of a share purchase plan 100,000 shares have been issued to officers and directors of the Company. The aggregate purchase price of \$165,000 is payable prior to January 17, 1983 and is secured by non-interest bearing promissory notes.

7. COMMITMENTS

The aggregate rentals payable to the expiry date of the long-term operating lease for office space amount to \$219,568. Future annual minimum payments for the lease period are \$54,892.



8. SEGMENTED INFORMATION

The Company has two areas of activity:

- (a) the exploration for and development and sale of production from petroleum and natural gas properties; and
- (b) the exploration and development of mineral properties.

Since the mineral properties are still in the exploration phase, industry segment information has been given only in identifiable assets under geographic segments. Information about the Company's operations by geographic segment is as follows:

	United States	Canada	Total
Petroleum and natural gas operations	\$6,088,304	\$9,182,330	\$15,270,634
Mineral operations	—	728,372	728,372
	<u>\$6,088,304</u>	<u>\$9,910,702</u>	<u>15,999,006</u>
Receivable under share purchase plan			165,000
Investment in other companies			261,102
Other corporate assets			<u>497,523</u>
Total assets			<u>\$16,922,631</u>



Louis R. Fyffe:
Exploration Manager,
Seagull Resources Limited
Seagull Resources, Inc.

An oil and gas explorationist in both Canada and the United States for thirty-two years, Mr. Fyffe's primary discipline is geology. He had been president of his own exploration firms, Athens Petroleum, Blue Nose Oil Limited and Ram Drilling Ltd., prior to joining Seagull's predecessor in 1975.



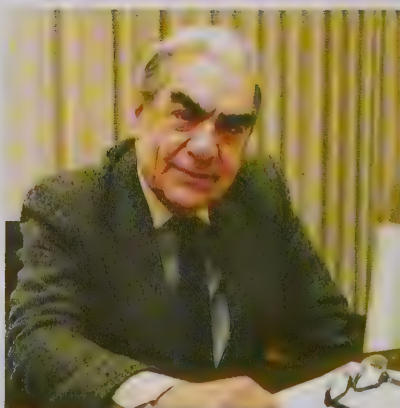
Russ G. Jensen:
Manager, Land,
Seagull Resources Limited
Corporate Secretary,
Seagull Resources Inc.

Mr. Jensen has twelve years experience as a petroleum landman with a major independent natural resource company. Day to day responsibilities during this period included land administration of oil and gas properties in Western Canada, the inter-mountain area of the United States, Texas, Louisiana and California. He joined Seagull in February, 1980.



Roy N. Nelson:
Engineering Co-ordinator,
Seagull Resources Limited
Seagull Resources, Inc.

Mr. Nelson's eight years of petroleum industry experience focused particularly on the more technical aspects of production such as reservoir engineering, economic and reserve evaluations and productions test analysis. He joined Seagull in February, 1980.



Roger H. Guimond:
Manager, Mining,
Seagull Resources Limited

Mr. Guimond's 25 years of mining experience include projects ranging from base metal in eastern Canada and coal in Western Canada to exploration in Mexico. As Editor, Mining in Canada, he received several awards for articles on uranium, silver and base metals development. He joined Seagull in October, 1980 and has principal operational responsibility for our coal project.



Robert T. Wall:
Research Analyst

Mr. Wall joined the Company in December, 1980. He has two years experience in many areas of the oil and gas industry including drilling, geophysical and technical field work.



Barbara F. Scott
Accountant



Marilyn Butler,
Accountant



Terri Jordan,
Secretary



Roberta Segar,
Assistant Landman



Laurie D. Graham,
Receptionist

Board of Directors

James M. Brady	Calgary, Alberta
John A. Downing	Calgary, Alberta
Hugh C. Findahl	Calgary, Alberta
Roman P. Derkach	Calgary, Alberta
Louis R. Fyffe	Calgary, Alberta
Eric Nissen	Calgary, Alberta
Ronald J. Farano	Toronto, Ontario

Head Office

Suite 301, 615 - 3 Avenue S.W.
Calgary, Alberta
T2P 0G6

U.S.A. Office

1600, 11 Greenway Plaza
Houston, Texas
77046

Registrar and Transfer Agents

The Canada Trust Company
505 - 3 Street S.W.
Calgary, Alberta

Legal Counsel

Burstall & Company
12 Floor - Aquitaine Towers
540 - 5 Avenue S.W.
Calgary, Alberta

Officers

James M. Brady	President
Hugh C. Findahl	Executive Vice-President
Roman P. Derkach	Secretary-treasurer

Auditors

Thorne Riddell

Stock Exchange Listing

The Alberta Stock Exchange
Calgary, Alberta - Symbol SGU
NASDAQ, U.S.A. - Symbol SGULF

Annual Meeting

The Annual Meeting of shareholders of Seagull Resources Limited will be held at 3:00 P.M., April 30, 1981, in the Clearwater Room, The Delta Bow Valley Inn, 4th Ave. & 1st St. S.E., Calgary, Alberta.

Company Profile

Seagull Resources Limited is a public company listed in Canada on The Alberta Stock Exchange and in The United States on NASDAQ.

The company is engaged in petroleum exploration and production with emphasis on United States prospects and in the development of base metals and coal mining properties in Canada.

Seagull Resources Ltd.

Consolidated Financial Statements

Year Ended October 30, 1980

Auditors' Report

To the Shareholders of
Seagull Resources Ltd.

We have examined the consolidated balance sheet of Seagull Resources Ltd. as at October 30, 1980 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1979 comparative figures are based on financial statements reported upon by other auditors.

Calgary, Canada
January 14, 1981



Chartered Accountants

Seagull Resources Ltd.

Consolidated Balance Sheet

ASSETS

	October 30, 1980	October 31, 1979 (note 9)
CURRENT ASSETS		
Cash	\$ 317,195	\$ 25,687
Accounts receivable		
Trade	1,744,496	1,195,339
Sale of resource properties (note 2)	150,000	—
Officers and directors	16,721	14,050
Prepaid expenses	9,149	37,895
	<u>2,237,561</u>	<u>1,272,971</u>
PROMISSORY NOTE RECEIVABLE (note 2)	<u>330,000</u>	<u>—</u>
RECEIVABLE UNDER SHARE PURCHASE PLAN (note 5(c))	<u>165,000</u>	<u>82,500</u>
INVESTMENTS IN OTHER COMPANIES, at cost (quoted market value 1980 - \$626,218; 1979 - \$232,959)	<u>261,102</u>	<u>248,666</u>
ADVANCES TO AFFILIATED COMPANY	<u>—</u>	<u>221,670</u>
PROPERTY AND EQUIPMENT, at cost (note 3)	12,456,903	11,507,122
Accumulated depletion and depreciation	745,814	287,338
	<u>11,711,089</u>	<u>11,219,784</u>
OTHER ASSETS	<u>16,879</u>	<u>31,845</u>
	<u><u>\$14,721,631</u></u>	<u><u>\$13,077,436</u></u>

Approved by the Board



Director



Director

Seagull Resources Ltd.

Consolidated Balance Sheet

LIABILITIES

	October 30, 1980	October 31, 1979 (note 9)
CURRENT LIABILITIES		
Bank indebtedness (note 4)	\$ 197,384	\$ 251,980
Accounts payable and accrued liabilities	1,746,110	2,112,591
Current maturities on long-term debt	9,100	—
	<u>1,952,594</u>	<u>2,364,571</u>
LONG-TERM DEBT (note 4)	<u>7,081,434</u>	<u>3,270,381</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)		
Authorized		
1,000,000 Preferred shares with \$10 par value, issuable in series		
10,000,000 Common shares without par value		
Issued		
280,000 9% cumulative redeemable convertible preferred shares, Series A (290,000 shares in 1979)	2,800,000	2,900,000
3,354,774 Common shares (3,287,394 shares in 1979)	<u>6,548,132</u>	<u>6,359,512</u>
	9,348,132	9,259,512
DEFICIT	<u>(3,660,529)</u>	<u>(1,817,028)</u>
	<u>5,687,603</u>	<u>7,442,484</u>
	<u><u>\$14,721,631</u></u>	<u><u>\$13,077,436</u></u>

Seagull Resources Ltd.

Consolidated Statement of Earnings

	Year Ended	
	October 30, 1980	October 31, 1979 (note 9)
Revenue		
Sale of oil and gas	\$ 770,406	\$ 400,280
Gain on sale of property	654,224	410,378
Interest	17,673	39,354
	<u>1,442,303</u>	<u>850,012</u>
Expenses		
Production	131,277	76,799
Non-producing lease rentals	102,746	68,357
Abandoned properties and exploration	815,121	1,210,124
Engineering and consulting	217,870	312,043
General and administrative	837,625	643,627
Interest on long-term debt	715,293	337,971
Depletion and depreciation	466,921	94,676
	<u>3,286,853</u>	<u>2,743,597</u>
Loss before the undernoted	(1,844,550)	(1,893,585)
Gain (loss) on sale of other assets	249,149	(6,417)
Loss before income taxes	(1,595,401)	(1,900,002)
Income taxes		
Provincial royalty tax credit	38,900	52,477
LOSS	(1,556,501)	(1,847,525)
Dividends on preferred shares	(252,000)	(97,699)
LOSS APPLICABLE TO COMMON SHARES	<u>\$ (1,808,501)</u>	<u>\$ (1,945,224)</u>
LOSS PER COMMON SHARE	<u>\$(.55)</u>	<u>\$(.64)</u>

Consolidated Statement of Deficit

	Year Ended	
	October 30, 1980	October 31, 1979 (note 9)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR		
As previously reported	\$ (1,678,163)	\$ 128,196
Exploration costs on abandoned properties (note 9)	(138,865)	—
As restated	(1,817,028)	128,196
Loss	(1,556,501)	(1,847,525)
Preferred share issue expenses	(35,000)	—
Dividends on preferred shares	(252,000)	(97,699)
DEFICIT AT END OF YEAR	<u>\$ (3,660,529)</u>	<u>\$ (1,817,028)</u>

Seagull Resources Ltd.

Consolidated Statement of Changes in Financial Position

	Year Ended	
	October 30, 1980	October 31, 1979
		(note 9)
WORKING CAPITAL DERIVED FROM		
Issue of preferred shares	\$ —	\$ 2,900,000
Issue of common shares	188,620	1,652,000
Proceeds on sale of property	1,854,654	1,588,959
Proceeds on sale of other assets	845,792	37,896
Increase in long-term debt	4,592,987	2,785,381
Other	4,548	371,242
	<u>7,486,601</u>	<u>9,335,478</u>
WORKING CAPITAL APPLIED TO		
Operations	1,153,774	944,923
Additions to property and equipment	2,987,417	5,740,664
Reduction of long-term debt	781,934	1,188,000
Receivable under share purchase plan	82,500	82,500
Increase in investments in other companies	220,056	202,091
Increase in advances to affiliated company	167,353	221,670
Dividends on preferred shares	252,000	97,699
Conversion of preferred shares	100,000	—
Preferred share issue expenses	35,000	—
Promissory note receivable	330,000	—
	<u>6,110,034</u>	<u>8,477,547</u>
INCREASE IN WORKING CAPITAL POSITION	1,376,567	857,931
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	<u>(1,091,600)</u>	<u>(1,949,531)</u>
WORKING CAPITAL (DEFICIENCY) AT END OF OF YEAR	<u>\$ 284,967</u>	<u>\$ (1,091,600)</u>

Seagull Resources Ltd.

Notes to Consolidated Financial Statements Year Ended October 30, 1980

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Acquisitions of subsidiaries are accounted for by the purchase method and, accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings. The excess of the consideration paid for shares of subsidiary companies over the net book value of the assets acquired has been included in property and equipment in the consolidated balance sheet and is being amortized on the same basis as such assets.

(b) Property and Equipment

(i) Petroleum and Natural Gas Operations

The Company capitalizes the acquisition costs of both producing and non-producing properties by project area of interest until it is determined whether or not economic reserves exist. If no economic reserves exist for an area of interest, all costs related to that area are charged to earnings. If economic reserves exist, all costs related to that area are amortized using the unit-of-production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Equipment is depreciated on a straight-line basis over its estimated useful life at an annual rate of 10 percent.

(ii) Mineral Properties

All costs of mineral properties including exploration and development expenditures related to such properties are capitalized by area of interest as long as the properties are considered to be of value. The costs of such properties are written off against earnings if abandoned or will be amortized on a unit-of-production basis on commencement of commercial production.

Development of mineral properties and recovery of related costs are dependent upon capital financing arrangements, mineral market conditions, environmental considerations and general economic conditions.

(c) Foreign Currencies

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis:

- (i) current assets and liabilities at the rate of exchange at balance sheet date;
- (ii) all other assets, applicable depreciation and depletion, and non-current liabilities at rates prevailing when the assets were acquired or the liabilities incurred;
- (iii) revenue and expenses, except depreciation and depletion, at the average rate in effect during the period.

Gains or losses resulting from such translation practices are charged to earnings.

2. PROMISSORY NOTE RECEIVABLE

During 1980 the Company sold property and equipment for \$480,000 of which \$150,000 was paid subsequent to October 30, 1980 and the balance of \$330,000 is payable from 50% of the net revenues from the property until September 30, 1985 when any unpaid amount is due.

Seagull Resources Ltd.

Notes to Consolidated Financial Statements (Continued) Year Ended October 30, 1980

3. PROPERTY AND EQUIPMENT

	1980		1979	
	Cost	Accumulated Depletion and Depreciation	Net	Net
Producing petroleum and natural gas rights including development thereon	\$ 4,147,284	\$ 532,052	\$ 3,615,232	\$ 467,585
Production equipment	<u>1,180,190</u>	<u>180,936</u>	<u>999,254</u>	<u>694,943</u>
	5,327,474	712,988	4,614,486	1,162,528
Non-producing petroleum and natural gas rights including development thereon	6,230,991	—	6,230,991	9,570,320
Non-producing mineral properties	728,372	—	728,372	453,341
Other property and equipment	<u>170,066</u>	<u>32,826</u>	<u>137,240</u>	<u>33,595</u>
	<u>\$12,456,903</u>	<u>\$ 745,814</u>	<u>\$11,711,089</u>	<u>\$11,219,784</u>

4. LONG-TERM DEBT

	1980	1979
13% Convertible debentures	\$ —	\$ 500,000
Production bank loans	7,049,356	2,770,381
Promissory note due December 1, 1984	<u>41,178</u>	<u>—</u>
	7,090,534	3,270,381
Less maturities included in current liabilities	<u>9,100</u>	<u>—</u>
	<u>\$ 7,081,434</u>	<u>\$ 3,270,381</u>

The bank indebtedness included in current liabilities and production bank loans are secured by demand promissory notes and are secured by specific petroleum and natural gas properties and accounts receivable. Interest is payable at a bank prime rate plus 1.5%.

The production bank loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of working capital; therefore, no portion of such loans has been reclassified to current liabilities.

On November 3, 1980, the Company received \$4,000,000 by issue of 9% Series One Convertible Promissory Notes due November 2, 1981. The notes are convertible prior to maturity to common shares of the Company for \$5.00 per share. The notes were issued to a company managed and owned by an officer and director of the Company and his relatives. The proceeds were used to reduce production bank loans.

After giving effect to the repayment of production bank loans referred to above, the estimated principal payments on long-term debt for the next five years are as follows: 1981 - \$515,600; 1982 - \$768,900; 1983 - \$768,900; 1984 - \$768,900; 1985 - \$759,800.

Seagull Resources Ltd.

Notes to Consolidated Financial Statements (Continued) Year Ended October 30, 1980

5. CAPITAL STOCK

Changes in the issued capital stock for the years ended October 31, 1979 and October 30, 1980 are as follows:

(a) Preferred Shares, Series A

	Number of Shares	Carrying Value
Balance October 31, 1978	—	\$ —
Issued for cash	290,000	2,900,000
Balance October 31, 1979	290,000	2,900,000
Converted into common shares	(10,000)	(100,000)
Balance October 30, 1980	<u>280,000</u>	<u>\$ 2,800,000</u>

The Series A shares are redeemable commencing June 15, 1984 at \$10.50 each. The redemption price reduces annually to \$10.00 each at June 15, 1989 and subsequent. The Series A shares are also convertible to common shares at \$6.50 per common share until June 15, 1982, at \$8.50 per common share from June 15, 1982 to June 15, 1985 and \$10.50 per common share from June 16, 1985 to June 15, 1989. If prior to June 15, 1984 the weighted average price at which the common shares were traded for 20 trading days exceeds 150% of the conversion price noted above, the Series A shares may be redeemed by the Company.

(b) Common shares

	Number of Shares	Carrying Value
Balance October 31, 1978	<u>2,439,966</u>	<u>\$ 4,771,062</u>
Cancelled on liquidation of wholly-owned subsidiary company	(32,500)	(63,550)
Issued for cash pursuant to share option agreements	155,000	439,000
Issued for properties	5,000	25,000
Issued on conversion of 7% convertible debenture	719,928	1,188,000
	<u>847,428</u>	<u>1,588,450</u>
Balance October 31, 1979	<u>3,287,394</u>	<u>6,359,512</u>
Issued on conversion of Preferred Shares, Series A	15,380	100,000
Issued pursuant to share purchase plan	50,000	82,500
Issued for cash pursuant to share option agreements	2,000	6,120
	<u>67,380</u>	<u>188,620</u>
Balance October 30, 1980	<u>3,354,774</u>	<u>\$ 6,548,132</u>

Subsequent to October 30, 1980, 65,000 common shares were issued to acquire additional mineral properties.

At October 30, 1980 230,000 common shares were reserved for issuance at prices ranging from \$2.46 to \$3.06 pursuant to stock options expiring from time to time until May 12, 1983 and granted to officers, directors and employees. Common shares have also been reserved for issuance pursuant to the conversion privileges of the Series A preference shares. Subsequent to October 30, 1980, an additional 800,000 common shares were reserved for issuance pursuant to the conversion privileges of the \$4,000,000 Series One Convertible Promissory Notes (see Note 4).

(c) Receivable Under Share Purchase Plan

Under terms of a share purchase plan 100,000 shares have been issued to officers and directors of the Company. The aggregate purchase price of \$165,000 is payable prior to January 17, 1983 and is secured by non-interest bearing promissory notes.

Seagull Resources Ltd.

Notes to Consolidated Financial Statements (Continued) Year Ended October 30, 1980

6. COMMITMENTS

The aggregate rentals payable to the expiry date of the long-term operating lease for office space amount to \$219,568. Future annual minimum lease payments for the lease period are \$54,892.

7. SUBSEQUENT EVENT

In addition to the subsequent events disclosed in notes 4 and 5, Seagull Resources Ltd. and Seatu Exploration Ltd. were amalgamated on October 31, 1980, under provisions of the Companies Act (Alberta) to form Seagull Resources Limited.

8. SEGMENTED INFORMATION

The Company has two areas of activity:

- (a) the exploration for and development and sale of production from petroleum and natural gas properties; and
- (b) the exploration and development of mineral properties.

Since the mineral properties are still in the exploration phase, industry segment information has been given only in identifiable assets under geographic segments. Information about the Company's operations by geographic segment is as follows:

	Canada	United States	Total
Oil and gas sales	\$ 648,177	\$ 122,229	\$ 770,406
Operating loss	\$ (324,734)	\$ (638,795)	(963,529)
Gain on sale of resource property	\$ 513,699	\$ 140,525	654,224
Gain on sale of other assets	\$ 249,149	\$ —	249,149
Interest			17,673
General and administrative expenses			(872,625)
Interest on long-term debt			(715,293)
Loss before income taxes			\$ (1,630,401)
Identifiable assets			
Petroleum and natural gas operations	\$ 8,390,826	\$ 4,882,431	\$13,273,257
Mineral operations	728,372	—	728,372
	\$ 9,119,198	\$ 4,882,431	14,001,629
Receivable under share purchase plan			165,000
Investment in other companies			261,102
Other corporate assets			293,900
Total assets			\$14,721,631

9. RESTATEMENT OF PRIOR YEAR'S CONSOLIDATED FINANCIAL STATEMENTS

The 1979 consolidated financial statements have been restated to charge earnings with non-productive exploration costs of \$138,865 incurred in 1979 on properties abandoned in 1979. There is a corresponding increase in the reported loss for 1979 of \$138,865 (\$.04 per share).

10. STATUTORY INFORMATION

During 1980, the consolidated group of companies paid no remuneration to the Company's six directors in their capacity as directors and paid \$216,654 to five officers of the Company, four of whom were also directors.

Seatu Exploration Ltd.

Financial Statements

Year Ended September 30, 1980
and Month Ended October 30, 1980

Auditors' Report

To the Shareholders of
Seatu Exploration Ltd.

We have examined the balance sheet of Seatu Exploration Ltd. as at September 30, 1980 and October 30, 1980 and the statements of earnings and deficit and changes in financial position for the year ended September 30, 1980 and for the one month ended October 30, 1980. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at September 30, 1980 and October 30, 1980 and the results of its operations and the changes in its financial position for the year ended September 30, 1980 and for the month ended October 30, 1980, all in accordance with generally accepted accounting principles applied on a consistent basis.

The 1979 comparative figures are based on financial statements reported upon by other auditors.

Calgary, Canada
January 14, 1980



Chartered Accountants

Seatu Exploration Ltd.

Balance Sheet

ASSETS

	October 30, 1980	September 30,	
		1980	1979
CURRENT ASSETS			
Cash	\$ 196,877	\$ 210,443	\$ 26,228
Accounts receivable	6,746	21,658	60,141
Advances on cash calls	—	—	48,123
	<u>203,623</u>	<u>232,101</u>	<u>134,492</u>
PROPERTY AND EQUIPMENT, at cost	<u>1,231,090</u>	<u>1,213,872</u>	<u>1,127,271</u>
Accumulated depletion and depreciation	—	—	1,274
	<u>1,231,090</u>	<u>1,213,872</u>	<u>1,125,997</u>
	<u><u>\$1,434,713</u></u>	<u><u>\$1,445,973</u></u>	<u><u>\$1,260,489</u></u>

LIABILITIES

CURRENT LIABILITIES			
Bank indebtedness, secured	\$ —	\$ —	\$ 35,702
Accounts payable	—	11,201	65,199
	<u>—</u>	<u>11,201</u>	<u>100,901</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 2)			
Authorized			
5,000,000 Common shares without par value			
Issued			
3,097,511 Common shares (3,075,000 shares in 1979)	1,649,895	1,649,895	1,616,128
DEFICIT	(215,182)	(215,123)	(456,540)
	<u>1,434,713</u>	<u>1,434,772</u>	<u>1,159,588</u>
	<u><u>\$1,434,713</u></u>	<u><u>\$1,445,973</u></u>	<u><u>\$1,260,489</u></u>

Approved by the Board



Director



Director

Seatu Exploration Ltd.

Statement of Earnings and Deficit

	Month Ended October 30,	Year Ended September 30,	
	1980	1980	1979
REVENUE			
Gain on sale of properties	\$ —	\$ 300,336	\$ —
Interest	2,423	43,058	27,396
	<u>2,423</u>	<u>343,394</u>	<u>27,396</u>
EXPENSES			
Non-productive exploration	—	46,667	350,098
Consulting fees	—	3,069	17,743
Lease rentals	—	8,983	—
General and administrative	2,482	43,258	114,821
Depreciation	—	—	1,274
	<u>2,482</u>	<u>101,977</u>	<u>483,936</u>
Earnings (loss) before income taxes and extraordinary item	(59)	241,417	(456,540)
Deferred income taxes	—	117,386	—
Earnings (loss) before extraordinary item	(59)	124,031	(456,540)
Reduction of income taxes (note 3)	—	117,386	—
NET EARNINGS (LOSS)	(59)	241,417	(456,540)
DEFICIT AT BEGINNING OF PERIOD	(215,123)	(456,540)	—
DEFICIT AT END OF PERIOD	\$ (215,182)	\$ (215,123)	\$ (456,540)
EARNINGS (LOSS) PER SHARE	\$ —	\$0.08	\$(0.17)

Statement of Changes in Financial Position

	Month Ended October 30,	Year Ended September 30,	
	1980	1980	1979
WORKING CAPITAL DERIVED FROM			
Proceeds from sale of properties	\$ —	\$ 724,159	\$ —
Issue of capital stock	—	33,767	1,141,375
	<u>—</u>	<u>757,926</u>	<u>1,141,375</u>
WORKING CAPITAL APPLIED TO			
Operations	59	58,919	105,168
Additions to property and equipment	17,218	511,698	1,346,286
	<u>17,277</u>	<u>570,617</u>	<u>1,451,454</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(17,277)	187,309	(310,079)
WORKING CAPITAL AT BEGINNING OF PERIOD	220,900	33,591	343,670
WORKING CAPITAL AT END OF PERIOD	\$ 203,623	\$ 220,900	\$ 33,591

5. SEGMENTED INFORMATION

The Company has a single line of business which is exploration and development and production of petroleum and natural gas. Information about the Company's operation by geographic segment is as follows as at September 30, 1980;

	Canada	United States	Total
Gain on sale of properties	<u>\$ 300,336</u>	<u>\$ —</u>	<u>\$ 300,336</u>
Operating profit (loss)	<u>\$ 254,517</u>	<u>\$ (12,900)</u>	<u>\$ 241,617</u>
Interest			43,058
General and administrative expense			(43,258)
Earnings before income taxes			<u>\$ 241,417</u>
Identifiable assets	<u>\$ 760,286</u>	<u>\$ 453,586</u>	<u>\$1,213,872</u>
Corporate assets			232,101
Total assets			<u>\$1,445,973</u>

6. STATUTORY INFORMATION

During the year ended September 30, 1980 and the month ended October 30, 1980 the Company paid no remuneration to the Company's five directors in their capacity as directors and paid \$9,000 and \$Nil respectively to one officer of the Company who is also a director.

Seatu Exploration Ltd.

Notes to Financial Statements

Year Ended September 30, 1980

and Month Ended October 30, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Property and Equipment

(i) Petroleum and Natural Gas Operations

The Company capitalizes the acquisition costs of both producing and non-producing properties by project area of interest until it is determined whether or not economic reserves exist. If no economic reserves exist for an area of interest, all costs related to that area are charged to earnings. If economic reserves exist, all costs related to that area are amortized using the unit of production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Equipment is depreciated on a straight-line basis over its estimated useful life at an annual rate of 10 percent.

(ii) Mineral Properties

All costs of mineral properties including exploration and development expenditures related to such properties are capitalized by area of interest as long as the properties are considered to be of value. The costs of such properties are written off against earnings if abandoned or will be amortized on a unit-of-production basis after they are put into production on commencement of commercial production.

2. CAPITAL STOCK

Changes in the issued capital stock for the years ended September 30, 1979 and 1980 and month ended October 30, 1980 are as follows:

	Number of Shares	Carrying Value
Balance September 30, 1978	2,225,000	\$ 474,753
Issued for cash	850,000	1,141,375
Balance September 30, 1979	3,075,000	1,616,128
Issued for property	22,511	33,767
Balance September 30 and October 30, 1980	<u>3,097,511</u>	<u>\$1,649,895</u>

3. INCOME TAXES

At September 30, 1980 the Company has, subject to confirmation by tax authorities, exploration and development costs and undepreciated capital costs of approximately \$1,200,000 and \$87,000 respectively. These amounts exceed related amounts reflected in the financial statements by \$65,000 and are deductible at varying rates from certain future income taxes otherwise payable. The income tax effect of the foregoing is not recognized in the financial statements except to the extent of the extraordinary credit to earnings in the period in which a tax reduction is realized.

4. SUBSEQUENT EVENT

On October 31, 1980, Seagull Resources Ltd. and Seatu Exploration Ltd. were amalgamated under provisions of the Companies Act (Alberta) to form Seagull Resources Limited.

Information Circular

Seagull Resources Limited

This Information Circular accompanies a Notice of Annual General Meeting of the Shareholders of Seagull Resources Limited called for 3:00 p.m., the 30th day of April, A.D. 1981, and is furnished in connection with the solicitation of Proxies for use at the Meeting

REVOCABILITY OF PROXY

In addition to revocation in any manner permitted by law a proxy may be revoked by instrument in writing (under seal for a corporation) deposited at the head office of the Company or with the Chairman of the Meeting.

PERSON OR COMPANIES MAKING THE SOLICITATION

Proxies for this Meeting are being solicited by the management of the Company and the cost of solicitations will be borne by the Company. The Management does not contemplate a solicitation of proxies otherwise than through use of the mails.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

(a) The Company has 4,149,283 common shares issued and outstanding and they are the only equity shares of the Company entitled to vote at the Meeting. Each share registered in a shareholder's name on the record date of the Meeting entitles him to one vote.

(b) April 9, 1981, is the record date for the determination of those shareholders entitled to notice of and to vote, either in person or by proxy at the said Meeting. The share transfer register of the Company will then be closed.

(c) To the knowledge of the Directors and Senior Officers of the Company, the following persons or companies only beneficially own, directly or indirectly, equity shares carrying more than 10% of the voting rights attached to all equity shares of the Company. The calculations herein are based on a total of 3,302,774 voting equity shares being entitled to vote.

Name of Shareholder	No. of Shares Beneficially owned	Percentage of Outstanding Equity Shares of the Com- pany
Tachyon Venture Management Ltd.	693,417	16.72%

Tachyon Venture Management Ltd. is owned by James M. Brady (President of Seagull). James M. Brady, President, is also the holder of 86,779 shares of Seagull.

ELECTION OF DIRECTORS

The directors' term of office is from the date of Meeting at which they are elected or appointed, until the annual meeting next following or until their successors are elected or appointed. Proxies given pursuant to this solicitation will be voted for the election of the following nominees unless otherwise directed. If, for some reason, any of the proposed nominees are unable to serve, the persons named in the Proxy will use their best judgment on voting for alternate nominees:

Name of Proposed Nominee and position with the Company	Principal Occupation	Director Continuously Since:	Approximate No. of Shares beneficially owned, Directly or Indirectly by Nominee
James M. Brady President & Director	President of Seagull Resources Limited	1975	780,196
Ronald J. Farano Director	Partner in law firm of Farano, Green & Brans, Toronto, Ontario	1975	88,200
Roman P. Derkach Secretary-Treasurer & Director	Secretary-Treasurer of Seagull Resources Limited	1976	149,943
John A. Downing P. Eng., Director	President, Sunburst Resources Ltd., Calgary, Alberta	1976	114,372
Louis R. Fyffe Manager of Exploration	Manager of Exploration	1979	100,131
Hugh C. Findahl Executive Vice-President	Executive Vice-President of Seagull Resources Limited. Prior to that, Account manager with the Royal Bank of Canada	1980	81,240
Eric Nissen	Independent businessman	Proposed Nominee	364,896

REMUNERATION OF MANAGEMENT AND OTHERS

(a) The direct remuneration paid or payable to the directors and officers of the Company during the Company's last completed financial year was the amount of \$216,654.

(b) Pursuant to a share purchase plan dated January 9, 1978 and approved by the shareholders on February 7, 1979 the following purchased treasury shares in October, 1980.

	<u>Shares</u>	<u>Price</u>
James M. Brady	20,000	\$33,000.00
Roman P. Derkach	15,000	\$24,750.00
Ronald J. Farano	15,000	\$24,750.00

(c) Pursuant to the 1979 Employee Stock Option Plan, the Board of Directors granted options to two employees on May 12, 1980 for the purchase of 21,000 shares at a purchase price of \$2.98 and on November 11, 1980 to three employees for the purchase of 27,000 shares at a purchase price of \$4.12 (both being market value less 15%). Options for the purchase of 8,000 shares were cancelled. To date options have been exercised for the purchase of a total of 92,000 shares. The market value during November ranged from a high of \$6.50 to a low of \$4.55 with a trading volume of 464,000 shares.

(d) On January 19, 1981, the Board of Directors passed a resolution authorizing that 200,000 treasury shares be reserved for an Employee Stock Option Plan, designated the "Seagull 1980 Employee Stock Option Plan". The plan stipulates: - a fixed term of three years; - the options granted are exercisable as to one-third in each of the three years and are cumulative; - the price is at market value less normal discounts as allowed by the relevant stock exchange.

On March 4, 1981, the Board of Directors granted options for the purchase of a total of 195,000 shares to eleven current employees. The option price was set at \$4.95 (being market value of \$5.50 less 10% on the Alberta Stock Exchange). The market value during January ranged from a high of \$6.37 to a low of \$5.37 with a trading volume of 258,500 shares, for February, a high of \$6.75 to a low of \$5.12, with a trading volume of 209,400 shares.

(e) In February, 1981, Kocana Resources Inc., a company supplying geological consulting services to Seagull Resources Limited, exercised its options to purchase 20,000 common shares at \$3.00.

APPOINTMENT OF AUDITORS

It is proposed to appoint Thorne Riddell as auditors for the ensuing year at remuneration to be fixed by the Board of Directors. They have been the auditors of the Company since April 1980.

OTHER MATTERS

Management is not aware that any matters will be brought before the meeting other than those set forth in the notice thereof and those matters set forth herein. If other matters are properly brought before the Meeting, it is the intention of the persons named in the enclosed proxy to vote the proxy on such matters in accordance with their best judgment.

The information contained in this Information Circular is given as of the 20th day of March, A.D. 1981.

Dated at the City of Calgary, in the Province of Alberta, Canada, this 20th day of March, A.D. 1981.

